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RUEHKL/AMEMBASSY KUALA LUMPUR PRIORITY 0044
RUEHLO/AMEMBASSY LONDON PRIORITY 1106
RUEHMO/AMEMBASSY MOSCOW PRIORITY 0277
RUEHNY/AMEMBASSY OSLO PRIORITY 0139
RUEHFR/AMEMBASSY PARIS PRIORITY 0162
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C O N F I D E N T I A L SECTION 01 OF 03 DOHA 000521

SIPDIS

E.O. 12958: DECL: 07/24/2018
TAGS: EINV EFIN ECON QA
SUBJECT: QATAR INVESTMENT AUTHORITY, PART TWO: ASSETS AND
INVESTMENT STRATEGY

REF: A. DOHA 518
¶B. 2007 DOHA 142
¶C. ASMARA 70
¶D. ASMARA 81

Classified By: CDA Michael A. Ratney for Reasons 1.4 (b) and (d).

¶1. (SBU) Summary: The Qatar Investment Authority (QIA) holds its estimated USD 60 billion in a wide variety of investments. Not content to sit on Treasury bills and other conservative, low-return assets, the QIA is buying significant stakes in Western and Asian firms, and taking on riskier investments throughout the developing world. Despite some financially questionable investments, inflows from government surpluses are increasing sharply as Qatar begins to reap enormous profits from its expansion of liquefied natural gas (LNG) production. The QIA uses a number of different investment vehicles which vary in degrees of transparency. This report is the second of three examining the QIA, and is assembled from Emboffs' meetings with various QIA employees over the past year, and information gathered from other contacts and press reporting. End Summary.

Assets and Investment Strategy

¶2. (C) The QIA's total assets under management remain a closely-guarded secret, but a commonly-accepted commercial estimate values the fund at USD 60 billion. One mid-level QIA contact said the fund is worth USD 64 billion, but it is unclear if he is speaking knowledgeably, as Finance Minister and QIA Board Member Kamal indicated recently that only the board knows the true figures. With Qatar's rapidly expanding natural gas exports and resulting multi-billion dollar budget surpluses, the QIA's base of available investment funds is likewise expanding rapidly. At the same time, share price drops in some of QIA's significant investments (such as British retailer Sainsbury's) may have undercut some of the fund's value. (Note: The estimate of USD 60 billion would mean the fund is worth almost double the government's annual budget and 85 percent of the country's USD 71 billion 2007 GDP.) As an example of the scope of potential investments, in fall 2006 QIA unsuccessfully bid USD 18 billion for Thames Water, a British utilities company (though undoubtedly a large proportion of the bid would have been raised via

private financing).

¶3. (C) According to Executive Board Member Dr. Hussein al-Abdulla, the QIA's strategic goal is to steward the state of Qatar's current surplus for long-term investment and to find alternative sources of income so that the country is able to survive without oil and gas revenues in the future. At the same time, al-Abdulla pointed out that the board looks for short-term money-making opportunities. He and other QIA leaders receive bonuses and perks based on the fund's annual growth. The high rate of inflation in Qatar (currently over 14 percent) is also prompting the QIA to search for opportunities with high returns. Prime Minister/Foreign Minister and QIA CEO Hamad Bin Jassim Al Thani (HBJ) said during a press interview last summer that inflation would eat any of their investments in Treasury bills, so QIA needs to "find a way to break through the cycle of dollar and interest rates."

¶4. (SBU) Analysis of QIA's reported investments does show broad asset-class and geographic diversity. A Monitor Group list of 22 publicly-reported deals from 2000 to the first quarter of 2008 (valued at USD 12 billion) revealed that 38 percent of investments were in financials, 27 percent in healthcare, and 24 percent in real estate, with 11 percent in other holdings. This public analysis is undoubtedly only a slice of the QIA's true investments; however, without further data it is impossible to estimate how much of the fund is concentrated in a particular asset or area. It does seem clear that the QIA is more willing than some sovereign wealth funds (SWFs) to undertake risky, non-Western investments.

¶5. (C) Also unlike some other SWFs, the QIA does not/not operate under any specific rules for contributing parts of government surpluses to the fund. The QIA is given money as part of the annual budget process and the amount varies depending on the size of the surplus, according to al-Abdulla. He stated that the QIA does not want specific information in this area to be made public because the QIA and GOQ would then receive pressure from Qatari society to distribute money now to Qatari nationals, and developing countries would also probably request additional aid.

¶6. (C) The QIA is not invested in the energy sector, both because the fund's goal is to diversify Qatar's economy away from hydrocarbons, and because state-owned Qatar Petroleum has a separate dedicated fund (Qatar Petroleum International) to participate in hydro-carbon projects. Robert Cheberiak, a Certified Financial Analyst (CFA) who works for QIA, said the organization has several accounts with specific social goals, such as an education and health fund designed to help meet the state's liabilities in this area.

¶7. (SBU) The QIA has historically invested in the United States and Europe, but in the last year various officials, including HBJ, have signaled their intention to seek greater diversity, particularly in Asia and non-dollar-based assets. In fall 2007, Qatari officials reported that the QIA had cut its exposure to the dollar from 99 percent to 40 percent. Contacts indicate that the QIA is increasingly wary of investing in the United States due to the prospect of a recession and concern over potential political backlash in the U.S.

¶8. (C) Still, al-Abdulla told visiting U.S. Senator Evan Bayh in February (Ref B) that 2007 was a "pretty good year" for QIA's investments in the U.S., which he said had an average rate of return of about 8 percent. Moreover, various fund officials have noted that the downturn in the U.S. economy may provide a good opportunity to invest in U.S. financial firms and construction companies. HBJ was quoted in the press in February saying that the QIA is looking to invest USD 10-15 billion over the next two years in banks; he added that Qatar should wait for further drops in the value of U.S. firms before investing there. One analyst told Econoff that the QIA is looking to invest in places where the economies are negatively correlated with Qatar's revenue stream from oil prices (i.e., where the economies receiving investment

would benefit and therefore return higher margins during times of low oil prices).

¶9. (C) The real estate division holds significant investments in London, Paris, Milan, and Southeast Asia. In London, a QIA subsidiary recently purchased a former British military facility, Chelsea Barracks, via a USD 2.5 billion Islamic financing package, and is converting the land into prime residential and office space. The QIA has growing affiliated offices in London and Paris and is considering opening an office in India, according to al-Abdulla

¶10. (C) Some of QIA's investments appear to be based as much on the personal predilections of the Amir and HBJ as on any economic logic. In particular, Qatari Diar (see below) has an appetite for investments far afield and has signed agreements for several large resort, hotel, and export industry projects in economically inauspicious markets like Eritrea (see Refs C and D), Sudan, and Mauritania. HBJ appears to have a particular fondness for investments in the UK, where he personally owns several expensive properties. Other notable QIA holdings as reported in press are listed below:

Sainsbury (UK) - 26 percent
London Stock Exchange (UK) - 15 percent
Barclays Bank (UK) - 6 percent
Credit Suisse (Switzerland) - 2 percent
Housing Bank for Trade and Finance (Jordan) - 20.6 percent
Raffles Medical Group (Singapore) - 4.87 percent
European Aeronautical Defense and Space Company (EADS) - 5 percent
Lagardre (France) - 6 percent

Investment Vehicles

¶11. (SBU) As with any large fund, the QIA receives a lot of outside investment proposals, even as it builds an in-house team to assess and seek out investment opportunities. QIA makes use of subsidiary companies and special funds with their own leadership for negotiation and management of large deals, such as real estate projects or the failed Sainsbury's acquisition. For the most part, the QIA uses financial intermediaries to conduct research, assess, negotiate, and ultimately undertake investments. Among the most high profile were Delta Two and Three Delta, a fund and advisory group controlled by British financier Paul Taylor, until the QIA moved to cut ties with him earlier this year, reportedly due to differences of opinion over UK investments. Qatar Holdings LLC presents another public face of the QIA and was registered in 2006 at the Qatar Financial Center. This firm makes investments in major capital markets, and is the vehicle by which the QIA invested in the LSE and Nordic exchange operator OMX.

¶12. (C) Among the most significant of QIA's holdings is Qatari Diar, a 100 percent QIA-owned company, founded in 2005, dedicated to investing in real estate in Qatar and abroad. Diar owns Qatar National Hotels, a group established in 1993 which owns 13 luxury hotel properties in Qatar, giving it control of a majority of the hotel capacity in the country. Diar is also building major projects in Qatar including a new convention center and the Lusail development, a massive residential/commercial/recreational project intended to eventually accommodate 200,000 people. Further afield, Diar is undertaking real estate development projects, including tourism and residential properties, in Sudan, Cuba, Mauritania, Syria, Eritrea, and other developing countries. The QIA reportedly sees these as potentially profitable investments, though it also seems clear that HBJ and other senior GOQ leaders consider these investments as a means of furthering Qatar's bilateral political relations with those countries. John Ward, the Lebanese-American COO of Qatari Diar, acknowledged as much, telling us that many of their investments are for "political relationship building," and not financial return. Diar also owns 45 percent of Barwa, a real estate developer focused on building medium-sized developments in Qatar.

¶13. (U) QIA has also established several joint venture funds with other SWFs. According to press reports, QIA is a partner in multiple billion-dollar investment vehicles with government-controlled entities in Dubai, Oman, Indonesia, Libya, Finland, and Malaysia.

Comment

¶14. (C) As noted in this report, there is little transparency on the QIA's accounts and it is sometimes hard to distinguish in the investment rumormill between Qatari public funds and the ruling Al Thani family's personal wealth. In particular, HBJ is personally worth billions of dollars and often makes investments in line with those of the QIA - most recently taking a personal stake in Barclays Bank in tandem with the official fund. Investments undertaken by QIA and the ruling family appear to be profit-motivated. However, as with the political use of other government-funded instruments such as Al-Jazeera, some investments will inevitably be colored by the political predilections of the relatively small number of Qatari officials making major investment decisions. This seems particularly true of Qatari Diar and its real estate investments in far-flung locales shunned by the global economy but nonetheless important to Qatar's self-image as a major diplomatic player.

¶15. Tripoli minimize considered.
RATNEY